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POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2015	Docket No. ACR2015

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1, 6, 8, 10 AND 12 OF CHAIRMAN'S INFORMATION REQUEST NO. 12

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 12, issued on February 9, 2016. Each question is stated verbatim and followed by the response. Responses to the other questions were filed on February 17, 2016.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. In Docket No. R2010-4, Library Reference USPS-R2010-4/9 Operations Plans for Flats (Flats Strategy), July 6, 2010, the Postal Service detailed operations changes regarding the Mail Processing of Flats. In Docket No. ACR2014, the Commission issued a series of Chairman's Information Requests concerning the implementation and costs savings of the operational changes detailed in the Flats Strategy. In Docket No. ACR2014, Responses of the United States Postal Service to Questions 5-7 and 10-12 of Chairman's Information Request No. 4, February 19, 2015, question 11 (February 19, 2015, Responses to CHIR No. 4), the Postal Service indicated that the "Periodicals Lean Six Sigma (LSS) end-to-end value stream mapping project" was completed in 2010. The Postal service stated that in 2011, it "established national Critical Entry Times for Periodicals, eliminated the use of 'Hot 2C' practices by both the Postal Service and mailers, and eliminated management of in-home dates for both Periodicals and Standard Mail." *See* February 19, 2015, Responses to CHIR No. 4, question 11(n).

a. Please provide a copy of the Value Stream Map completed in 2010. If the Value Stream Map has been updated or completed for additional classes of mail, please provide a copy of all such updates and Value Stream Maps that have been completed for additional classes of mail.

b. Please provide the areas of inefficient operation identified by the Lean Six Sigma (LSS) project for Periodicals Flats.

c. Please explain how the operational changes identified in the February 19, 2015, Responses to CHIR No. 4, question 11(n) were intended to address the areas of inefficient operation identified by the LSS project.

d. Please describe the impact of the LSS project on mail processing costs and operations. If no estimate of the impact is available, please indicate a time frame within which it is expected to be completed.

e. Did the inefficiencies identified by the LSS project for Periodicals Flats apply to any other Flats product? If not, please explain why the Postal Service believes those inefficiencies were unique to Periodicals Flats. If the Postal Service believes that the inefficiencies identified by the LSS project for Periodicals Flats apply to other Flats products, please identify which Flats products had such inefficiencies, identify those Flats products by LSS project, and describe any operational changes the Postal Service has made to address the inefficiencies it has identified.

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RESPONSE:

a. A copy of the requested VSM for Periodicals from 2010 is attached to this response electronically. No updates or variations for other classes have been identified.

b. The Lean Six Sigma (LSS) project identified 5 major areas of inefficiency for Periodicals Flats:

- Lack of National Critical Entry Time (CET) for FSS and Non-FSS Periodicals Flats
- Bundle breakage on machines
- Bundle sortation opportunities
- Standardized mail flow opportunities
- Moving mail up the ladder[1]

c. The establishment of a national Periodicals CET for FSS and Non-FSS mail was identified to address the lack of standardized processing guidelines for local facilities that led to inefficient operational practices. The elimination of both the Hot 2C practices and adherence to In-Home date requests, drove the processing of mail up the ladder into automation and out of the manual environment.

d. The national CET has provided better planning for the acceptance and prioritization of processing Periodicals Flats. Moving mail up the ladder by eliminating the practices that drove manual processing of flats has allowed

[1] The "up-the-ladder" program focuses on using automation equipment (the most efficient level of distribution) to process flats instead of manual (the most costly and least efficient form of distribution).

the Postal Service to improve machine utilization and retain mail volume in the automated mail stream. Standardized mail flows have helped to reduce variability in local facilities.

e. The establishment of the national CET for FSS and non-FSS zones only applied to Periodicals Flats. Other inefficiencies such as bundle breakage and moving mail up the ladder identified in the LSS project for Periodicals Flats apply to other Flats products such as Standard Mail Flats, BPM Flats and Carrier Route Flats in varying degrees. The Postal Service did not establish specific LSS projects by Flats products. However, as noted in the ACR, the Postal Service continues to work with the mailing industry, through the Mailers Technical Advisory Committee, to study the causes and impacts of bundle breakage and evaluate solutions to reduce higher processing costs as well as potential damage to mailpieces.[2] In FY 2015, the Postal Service also continued its efforts to move mail up the ladder to automation.[3] The percentage of flats processed manually increased slightly from 9.8 percent in FY 2014 to 10.0 percent in FY 2015.[4] However, as the Postal Service explained, the slight increase is attributed

[2] FY 2015 ACR at 27.
[3] *Id.* at 20.
[4] *Id.*

to the continuing erosion of flats volumes, which reduces machine-compatible mail more than manual mail.[5]

[5] *Id.*

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6. In Order No. 2741, the Commission directed the Postal Service to provide specific information relating to 5-Digit pallets as part of its FY 2015 ACR. *See* Docket RM2015-18, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Nine), October 1, 2015, at 7-8 (Order No. 2741).

a. Please report the percentage of 5-Digit pallets that contained primarily 5-Digit bundles for each quarter of FY 2015 as required by Order No. 2741 at 7.

b. Please provide a narrative detailing whether mail processing facilities have altered their procedures for 5-Digit pallets following the implementation of Carrier Route pallet prices as required by Order No. 2741 at 7-8.

RESPONSE:

a. The requested data were provided in USPS-FY15-14, Mail Characteristics Study (Public Portion), workbook MAILCHAR15V.xls, sheet "PERIODICALS FLATS", cells M17-Q21. The requested table is reproduced below showing the disaggregation of 5-Digit Pallets into 5-Digit Merged pallets and 5-Digit pallets of primarily 5-Digit bundles. In USPS-FY15-14 only the levels were presented; in the table below the percentages are added.

Disaggregation of 5-Digit Pallets by Quarter - Order No. 2741

	Q1	Q2	Q3	Q4
5-Digit Merge	34,807	26,235	34,056	20,044
5-Digit Presort	209	71	34	97
5-Digit Presort Percentage	0.6%	0.3%	0.1%	0.5%

b. Mail processing facilities have not altered their procedures for 5-Digit pallets following the implementation of Carrier Route pallet prices. As the Commission noted in Order No. 2741, the Postal Service identified three subsets of 5-Digit pallets: (1) Carrier Route pallets—containing only Carrier Route bundles; (2) 5-Digit Presort pallets—containing only 5-Digit bundles; and (3) 5-Digit Merged pallets—containing principally Carrier

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Route bundles with no more than 5 percent of the contents being residual 5-Digit bundles.[6] For subset 1 and subset 3, the Postal Service continues to cross-dock those pallets to Destination Delivery Units (DDU) for sortation. For subset 2, the Postal Service continues to retain those pallets for processing at the Sectional Center Facility (SCF).

[6] Order Approving Analytical Principles Used in Periodic Reporting (Proposal Nine), PRC Docket No. RM2015-18 (Oct. 1, 2015), at 5.

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8. Please confirm that the Postal Service has collected data that enables it to track the flow of flat-shaped mailpieces in FY 2015.

a. If confirmed:

i. Please specifically identify any data systems used for tracking the flow of flat-shaped mailpieces.

ii. Please state if the Postal Service has identified the lowest cost mail flow for each type of flat-shaped mailpiece.

iii. Please state the percentage of flat-shaped mailpieces that followed the lowest cost mail flow.

iv. Please identify any operational inefficiencies that prevent flat-shaped mailpieces from following the lowest cost mail flow.

v. Please describe any efforts by the Postal Service to reduce the percentage of flat-shaped mailpieces that do not follow the lowest cost mail flow.

vi. Please provide any standard operating procedures that have been developed to increase the amount of flat-shaped mail that follow the lowest cost mail flow.

b. If not confirmed, please identify all obstacles that prohibit the Postal Service from tracking the flow of flat-shaped mailpieces.

RESPONSE:

Partially confirmed. Please see the response on part a.i below.

a.

i. The Mail History Tracking System (MHTS) provides scan data of Flats using either an Intelligent Mail Barcode (IMb) or ID tags for mail pieces in automation operations only.[7] The Postal Service also uses the IMb Service Performance Diagnostics System (SPD) to track mail pieces during automated processing

[7] *See* Responses of the United States Postal Service to Questions 1-6, 8-10 of Chairman's Information Request No. 11, Question 8 (Feb. 16, 2016) (discussing additional IMb limitations).

using the IMb. This system extends the machine process by including data from acceptance documents.

ii. The Postal Service has not identified a lowest cost mail flow for each type of flat-shaped mail piece. Neither system noted above captures costing data needed to derive a lowest cost mail flow for flat-shaped mail pieces. The cost models in USPS-FY15-11 provide the weight-averaged unit costs of presort mail pieces by rate categories in which they were entered. Pieces in each rate category have a certain probability of being processed in various different mail flows.

iii. N/A. See response to ii.

iv. N/A. See response to ii.

v. N/A. See response to ii.

vi. N/A. See response to ii.

b. Lowest cost mail flow, as stated in the question, implies that all mail pieces are entered and destined similarly and have the same characteristics. The Postal Service is a multi-channel network and has multiple entry and exit points with lots of nuances built within. Pieces flow through different mail flow paths depending on mail piece characteristics, presort and entry level, service performance obligations, operating windows, machine performance, and destination distribution requirements. Automated handlings generally provide

the lowest cost in mail processing. However, for low volume zones, sorting in manual operations is efficient due to fixed costs in automation. The lack of visibility into manual piece processing also impedes the ability to determine a lowest cost mail flow.

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10. The Postal Service states that by addressing the indicators identified in the Mail Pieces At-Risk Report it has "improved operational throughput, increased the percentage of flats sorted in delivery point sequence, and reduced the overall amount of At-Risk pieces for the FSS operation." FY 2015 ACR at 20. Please provide the analysis to support each of these conclusions.

RESPONSE:

In the ACR, the Postal Service explained that the indicator identified in the Mail Pieces At-Risk Report "identifies the percentage of mail that does not follow the prescribed path of sortation through a machine-based operation. These pieces, while not representative of service failures, require some additional handling in order to ensure they meet service expectations."[8] In particular, the indicators referenced were in relation to the Flat Sequencing System (FSS). The analysis provided in that section compared the operational throughput, percentage of flats sorted in Delivery Point Sequence (DPS), and the percentage of mail pieces At-Risk in FSS operations. In FY 2015, compared to FY 2014, the operational throughput increased (8,840 pph compared with 8,746 pph), the percentage of Flats sorted in DPS increased (59.99 percent compared with 58.57 percent), and the percentage of mail pieces At-Risk decreased (5.34 percent compared with 6.15 percent). These improvements occurred because targeting the At-Risk indicators enables the Postal Service to keep more mail in the prescribed path of sortation, thus keeping the machine processing, and retaining the mail in DPS order.

[8] United States Postal Service, Annual Compliance Report FY 2015, PRC Docket No. ACR2015 (Dec. 29, 2015), at 19–20.

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12. According to the Office of Inspector General Report Number FF-AR-12-006, the Postal Service uses the Mail History Tracking System and the Intelligent Mail Accuracy and Performance System to measure mail flow analysis and service performance. *See* Office of Inspector General, Evaluation of the External First-Class Measurement System, Report Number FF-AR-12-006, September 18, 2012, at 23.

a. Please explain, for each shape of mail, the capabilities of these systems to track pieces and target and correct service failures.

b. Please provide, for each shape of mail, all current uses of these data systems.

c. Please explain, for each shape of mail, any additional uses that are planned for these data systems.

d. Please describe, for each shape of mail, all data that are contained within these data systems.

e. Please explain, for each shape of mail, if the mail flow analysis prepared by these data systems is consistent with the mail flows presented in the Postal Service cost avoidance models.

f. Please discuss, for each shape of mail, whether the Postal Service has considered using these data systems to track costs. If the Postal Service has not considered using these data systems to track costs, please explain why it has not.

RESPONSE:

a. The Mail History Tracking System (MHTS) utilizes the ID tag from letters and the Flats ID Coding System (FICS) label for Flats to track mail thru the automation system. Mail is tracked from the moment the ID tag/FICS label is applied (usually at the first operation) to the last automation scan. The MHTS obtains information from mail processing equipment such as what Zip Code was read, what bin the mail was sorted to, and whether it was directed to a reject bin. The MHTS also contains scan data for IMb mail, but it performs all diagnostics only on ID tags and FICS label mail.

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The Intelligent Mail Accuracy and Performance System (IMAPS) system is used for service performance measurement for letter and flat-shaped commercial mail. There is limited tracking of pieces of mail in this system. Most data are aggregates of similar pieces, providing information about the number of pieces within the same mail class, falling under the same product category, and having the same shape, origin ZIP Code, destination ZIP Code, start-the-clock date, anticipated delivery date based on the final processing date/time, service standard, and final processing group category. With this aggregate information, the transit-time for the mail can be calculated and compared to the service standard to determine the percent of mail delivered on-time or having a service variance of plus one, plus two, or plus three days. External reporters scan the IMbs from mail they receive at their addresses to record the delivery dates. Those IMbs are matched to pieces from the Business Intelligence Data Storage (BIDS) system to retrieve the data available for the piece (mail class, shape, product, start-the-clock date, service standard, mail processing scans). The data from these pieces are used to develop estimates of the last mile, which is then associated with similar pieces using the aggregated data described above. Additionally, randomly selected samples of pieces are tracked, in some cases along their associated scans, for quality assurance purposes to examine the processing from the Seamless Acceptance and Service Performance (SASP) and Business Intelligence Data Storage (BIDS) systems. The SASP and BIDS systems are the two primary systems used for tracking commercial letters and Flats for service performance purposes.

b. Because the MHTS data system is used extensively, the Postal Service cannot provide an exhaustive list of uses at this time. The system is used to monitor the service performance of letters and Flats, processing

clearance time, levels of advancement of mail, missents and missorts, special handling bin processing, compliance with mailflow SOPs, densities, real-time mail processing diagnostics, various maintenance issues. In addition, the system is used to create carrier manifests for Certified Mail.

The MAPS is used for service performance measurement related to transit-time of mail and quality assurance of the service performance measurement aspects of Seamless Acceptance and Service Performance (SASP) and Business Intelligence Data Storage (BIDS). There are no distinctions in the use of the system by mail shape.

c. The Postal Service plans to use the MHTS data system to improve remittance mail processing and real-time mail flow compliance. No additional uses are planned for the IMAPS.

d. The data contained within the MHTS data system include ID tag/FICS label data, time and location. Scan data contain location, machine number, machine type, bin sorted to, sortplan, barcode result, DSU result, date and time of scan, and symptom codes determined from diagnostics. Reports generated from this system aggregate this information.

The IMAPS system contains the following types of data:

- IMbs and delivery dates reported by external reporters
- Service performance information about the letters and flats which were matched to the barcodes reported by external reporters, along with the associated processing scans, and exclusion reasons, if any

- Copies of aggregated service performance data taken from the BIDS system to support service performance reporting requirements
- Samples of data at the mailpiece level, and in some cases including associated processing scans and exclusion records, copied from the BIDS system to perform quality assurance activities
- Reference data files to support service performance reporting and quality assurance activities
- Historical service performance scores produced by the IMAPS system
- Data to support the IMAPS program management processes, such as external reporter panel and scanner management activities

e. – f. In general, the mail flows in the systems described above map the mail pieces in the same pathways along which pieces are presented in the cost avoidance models, with some significant differences. The MHTS does not track parcels, so its use is limited. The MHTS and IMAPS both rely upon unique mail indicators such as the full-service IMb to track the mail, whereas the cost avoidance models must consider all mail regardless of the presence or lack thereof of the full-service IMb or IMpb. The current coverage of the full-service barcodes would leave a significant amount of mail unrepresented in the models if the only source were the systems mentioned in the question. The cost avoidance models

must track mail through manual operations for which the systems described above would have no data. The current sample frame for the IMAPS may not be compatible with the collection of data necessary to develop costs for all mail. In addition, for the Periodicals Flats model in USPS-FY15-11, the container movements are required, but would not be trackable in the systems described above.

That said, very limited samples of data from the source data feeding the IMAPS have been used to validate the mail flows in the cost avoidance models to the extent that mail of certain presort levels is mapped to flow from one specific operation to another. These limited samples have suggested that there is less standardization than the cost avoidance models would suggest, but have validated that the mail flows in the cost avoidance models reflect the intended and predominant flows for the mail in question and incorporate the possibilities for failures such as machine rejects. The Postal Service has a continuing effort to evaluate the appropriateness of substituting data from systems such as those listed in the question in lieu of the data and methods currently in use. This ongoing review takes into consideration such factors as the accuracy and completeness of the data, ability to produce product-level data (especially for non-full service IMb mail), nesting capability (to allow for tracing mail

from one system to another), data processing capacity and the assumptions involved in converting mail flows to product cost.